

The logo for the City of Edmonton, featuring the word "Edmonton" in white text on a blue square background.

Edmonton

OFFICE OF
THE CITY AUDITOR

REPORT

2021 Annual Report

FEBRUARY 25, 2022

Message from the City Auditor



HOA QUACH CITY AUDITOR

MISSION

Enhancing Edmontonians' trust through independent, value-add internal audit and advisory services.

GUIDING PRINCIPLES

Integrity
Accountability
Unbiased
Collaborative
Committed to continuous improvement

CITY AUDITOR BYLAW

In accordance with *Bylaw 12424, City Auditor Bylaw*, the City Auditor is responsible for all internal auditing activities within City Programs and City Agencies.

I am pleased to present the Office of the City Auditor's (OCA) Annual Report for the year ended December 31, 2021.

The OCA has an important role in supporting good governance, accountability, and transparency. Our independence, objectivity, and expertise have led to strengthened controls and improved effectiveness and efficiency in City programs and services. The OCA brings a systematic, disciplined approach to enhance governance, risk management, and internal controls. We conduct our work in accordance with the *International Standards for the Professional Practice of Internal Auditing* and *Code of Ethics*, established by the Institute of Internal Auditors.

Our success is built on strong relationships based on mutual respect and common values with our key stakeholders - the public, City Council, Audit Committee, and Administration. These relationships are critical to our success and allow the OCA to find a professional balance between independence and cooperation.

In closing, I want to personally thank each OCA team member for their commitment, dedication, and professionalism in serving Edmontonians and City Council.

2021 Projects

VALUE FOR MONEY

We presented eight value for money audits for public discussion at Audit Committee meetings in 2021. Value for money audits assess whether an operational area, service, or program operates efficiently, effectively, and economically and whether risks are appropriately mitigated.

PROACTIVE

We conducted two proactive projects. These allow the OCA to provide strategic, risk, and control-related advice prior to and during the development and implementation of projects, programs, and services.

Project Details

Snow and Ice Control Audit January 2021

The objectives of this audit were to assess if the Parks and Roads Services (PARS) Branch had effective and efficient processes in place to govern, monitor, and manage the Snow and Ice Control Program. The audit also assessed if the Branch had effective processes in place to manage public expectations on program quality.

This audit identified obstacles and opportunities for management to strengthen their governance structure, improve program delivery, and manage public expectations. We made 12 recommendations to address issues and opportunities for improvements.

Cloud Computing Audit January 2021

The objectives of this audit were to determine if the City's cloud computing policies and governance framework are in line with best practices. As well as if there are any control deficiencies that could negatively impact the organization.

The governance framework is well designed and in alignment with best practices. However, one of the guiding documents was outdated (although still valid). As well there is potential for improved communication with business areas. In some

instances, business areas ran cloud computing services that were not in compliance with the governance framework. These instances were minor in scope but could potentially have a negative impact if the business areas do not improve the controls. We made three recommendations to address these issues.

Real Estate Branch Audit

March 2021

The objectives of this audit were to determine if the Branch is: effectively managing City property, effectively administering the City's Land Inventory Database, and effectively and efficiently managing the City's surplus property holdings.

We found areas for improvement around role clarity and consistency, standardization of documentation and data storage, and implementation of a performance measurement framework. We also found an opportunity to improve some of the documentation around processes used to manage the database. As well, the Branch was not producing a high level report around surplus holdings. We made five recommendations to address these issues.

Open Spaces Asset Transfer Audit

March 2021

The objective of this audit was to determine if the City has an effective process to transfer open space assets to the Parks and Roads Services (PARS) Branch for ongoing maintenance.

The City has an effective process to accept open space assets. We found opportunities to improve on the documentation of the inspection process, including the recording and addressing of deficiencies. Additionally, the PARS Branch should be made aware of all projects with open space assets in order to attend the inspections. Staff should also enter information for all newly accepted open space assets into the Spatial Land Inventory Management system in a timely and complete manner. This will ensure that PARS maintains the assets. We made three recommendations to address these issues.

Environmental Strategies Audit

May 2021

The objectives of this audit were to examine the performance, alignment, and funding of the City's environmental strategies and community programs.

The results of this audit show that the programs are performing as intended and that funding is secure and adequate. The City is implementing a business planning process that can improve how environmental strategies are implemented in the future. However, performance measures may not accurately reflect program performance and can be improved. We made one recommendation to address this issue.

**Reserve Funds Governance
and Management Review**
November 2021

The objectives of the audit were to determine if a governance framework is in place to ensure that the City is using reserve funds for their intended purposes and that the City is properly managing the use of reserve funds.

The essential components of an effective governing framework for the administration and proper use of reserve funds exists. Finance also has developed a reserve fund governing document which provides guidance on the definition and types of reserve funds. However, this document does not cover some elements that good practice suggests, including what are allowable and non-allowable uses of reserve funds. We made one recommendation for the Financial Services Branch to update its governing document to promote the consistent administration and use of reserve funds.

**Historic Resources
Management Program Audit**
November 2021

The objective of this audit was to assess if the City's Historic Resources Management Program is effective in protecting historic resources.

The governance structure is effective. The Branch tracks historic resources and the information is available to the public. The Branch also conducts projection and analysis to assess the program's financial health, as well as exploring different options and tools to address future funding challenges. The Branch can improve the program's effectiveness in the areas of guiding documents, historic resources listing, and assessing historic resources conditions after issuing the grants. We made three recommendations to address these issues.

**Electrical Services Contract
Management Audit**

November 2021

The objectives of this audit were to determine if the City is receiving value for money from its electrical service contracts and whether it is effectively managing them.

We found areas for improvement around role clarity, invoicing, benchmarking, and enforcement of the terms and conditions of the electrical services contracts. We made four recommendations to address these issues.

Enterprise Risk Management

Proactive

The OCA supported the City's Enterprise Risk Management (ERM) by working with the ERM Subject Matter Experts workgroup to provide advice on the development of the City's new ERM Framework.

Fraud Risk Management

Proactive

The OCA supported the City's Fraud Risk Management efforts by facilitating fraud awareness presentations throughout the organization. We facilitated two virtual fraud awareness presentations to 130 employees.

In addition, the OCA also continued to manage two websites on the City's internal website with information and tools on how to recognize, report and stop fraud.

All current and historical reports by the OCA are available at edmonton.ca/auditor.

FRAUD AND MISCONDUCT HOTLINE

HOTLINE ADMINISTRATION

The Fraud & Whistleblower Protection Administrative Directive prescribes procedures for the prevention, detection, reporting, and investigation of suspected fraud, as well as the processes for reporting and resolving complaints of retaliation.

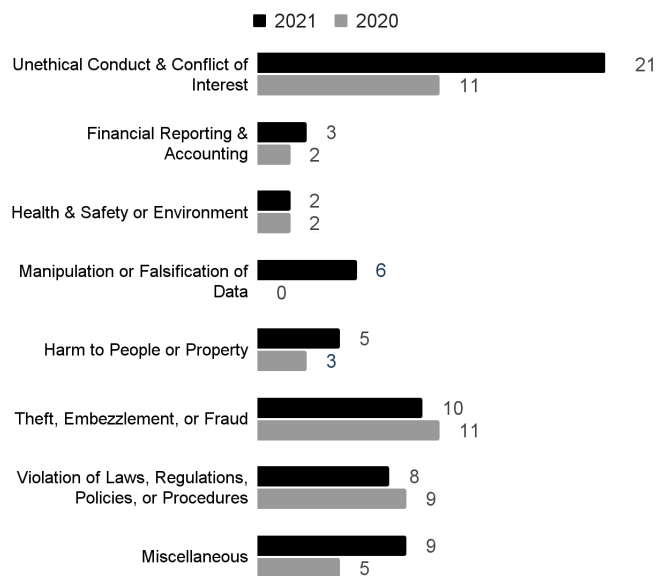
The OCA manages the hotline. Employees provide reports through a third-party service via the internet or over the phone. The information provided by hotline reporters is anonymous.

REPORTING PROCESS

Depending on the available details and the nature of the complaints, we decide whether or not to start an investigation. We send harassment and discrimination reports to the City's Safe Disclosure Office and workplace issues to the City Manager. In cases where we have referred the report to the City Manager, we receive a report back on the resolution and any actions taken.

TYPES OF REPORTS

In 2021, we received 64 reports of alleged fraud or misconduct. In 2020, we received 43 reports. Report topics fall into a number of different categories.



2021 DISPOSITION OF HOTLINE REPORTS

In 2021, the OCA or Administration investigated 53 reports of fraud and misconduct. Investigations are designed to prove or refute alleged fraudulent behavior or misconduct by a City employee or other parties.



Of the 53 investigations, 16 are still in progress, 28 could not be substantiated or confirmed, and 9 resulted in confirmation of the allegations or recommendations to address identified risks. We provide investigation details below.

2021 Investigation Details

Inappropriate use of sick time

A reporter alleged that an employee was using sick time to work another job outside of their City employment. Investigators interviewed the employee who denied having another job. Investigators also reviewed the employees sick time usage which showed a high number of sick days. The City issued the employee a letter of expectations around usage of sick time and placed them on an attendance management program.

Not following mask requirements

A reporter alleged that an employee was not following the mask requirements. Investigators confirmed that two employees met

in an office while not wearing their masks. The two employees were not aware that despite being seven feet apart, they still had to wear their masks. The supervisor held a safety meeting to refresh employees on masking requirements and updated safety materials to add clarity on the requirements.

Misuse of City time

A reporter alleged that an employee would take naps on shift and spend more time than necessary doing clerical work on a computer. The employee admitted to napping on their lunch break and investigators found that the employee spent a substantial part of their day working on the computer despite the expectation that this should only be a small part of their work time. The employee opted to leave their employment with the City prior to the completion of the investigation.

Misuse of City equipment

A reporter alleged that an employee's work vehicle had unnecessary features. Investigators confirmed this to be the case and that the employee had also approved the purchase of the features. Investigators recommended that the area remove the features from the vehicle and the employee's supervisor check and approve the purchases made by the employee in the future.

Misuse of City time

A reporter alleged that an employee was taking excessive smoke breaks throughout the day and in non-designated areas. The investigator determined the employee was taking 6-7 smoke breaks per day in designated areas. Based on the employee's hours of work the investigators found he was not misusing City time. The investigator recommended that the employee's supervisor discuss the optics of the employee's breaks and regardless of working the proper amount of time overall, he should minimize them as much as possible.

Violation of anti-idling policy

A reporter alleged that an employee idled their City vehicle for an extended period each morning, in violation of the City's anti-idling policy. The investigator found that the employee was idling their vehicle longer than allowed by the policy. The business area took corrective actions including: reviewing the

requirements of the idling policy with all employees in the section, checking to ensure all employees are following the policy, and providing additional training for the employee found to be in violation of the policy.

Violation of Code of Conduct

A reporter alleged that an employee was using their position with the City for personal gain. The investigator substantiated the allegations. The employee did not disclose to the City that they own a business, as required by the Code of Conduct. The employee obtained work for their business, due to their position with the City. The employee also violated the procurement directive by taking part in the procurement process that awarded the company a City contract. The employee was issued a non-compliance memo from Corporate Procurement and Supply Services for failure to show a personal relationship prior to taking part in a procurement process. The City also conducted a follow-up meeting with the contractor and put safeguards in place to prevent an issue like this going forward.

Violation of temporary work from home policy

A reporter alleged that an employee was living in a different province while continuing to work for the City. Investigators substantiated the allegation. The employee's supervisor had approved the working arrangement on an exception basis for a 12-month period to accommodate a family matter. However, the supervisor had not documented the temporary arrangement. The investigator recommended the supervisor document the informal arrangement.

Conflict of interest

A reporter alleged that an employee in an acting position had his wife reporting to him. The investigator substantiated the allegation. However, a measure was in place for the duration of the acting assignment and additional measures would also be used for future acting assignments to mitigate the conflict of interest risk.

RECOMMENDATIONS

RECOMMENDATIONS

The OCA makes recommendations to improve the City's operations and services. For each recommendation, we assess the adequacy, effectiveness, and timeliness of actions taken by management. This provides assurance that management has implemented our recommendations or provided appropriate explanations when actions are delayed, or decisions have been made to not implement recommendations.

DASHBOARD

At each Audit Committee meeting in 2021, we presented an updated Recommendation Follow-up Dashboard report. These reports provide the status of our recommendations and any changes to planned implementation dates.

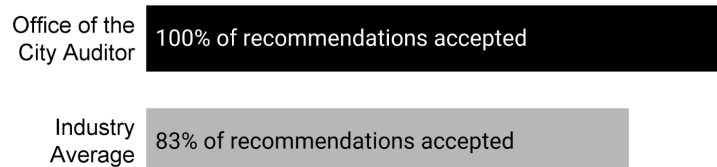
Recommendation Quality

RECOMMENDATIONS ACCEPTED

The number of recommendations accepted by Administration is an indicator of the quality of our audit findings.

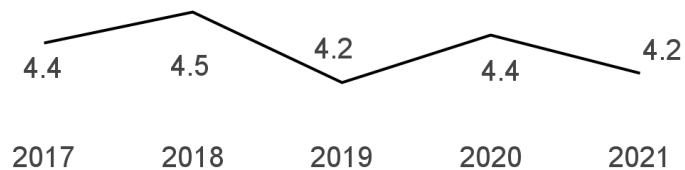
The Association of Local Government Auditors represents local government audit organizations in North America. We used their most current biennial survey of member audit organizations (2018) for industry averages.

In 2021, Administration accepted 100 per cent of the 32 recommendations we made. The industry average is 83 per cent.



USEFULNESS OF RECOMMENDATIONS

Clients help us gauge the quality of our audit recommendations by rating how useful the recommendations are to their business, on a 5-point scale. Our target is 4 out of 5.



2021 Closed Recommendations

In 2021, Administration implemented 46 recommendations, which improved efficiency, effectiveness, economy, governance, and risk management within the organization.

Improved governance and risk assessment of the City's emergency management program

In 2018, we completed an audit of the City's emergency management governance and risk assessments. In response to the audit recommendations, Administration has developed a strategic plan and performance management framework for the City's Emergency Management Program. They also updated the governing documents of the program, including the Emergency Management Bylaw and the City's Municipal Emergency Plan. These documents help to clarify the roles, responsibilities, and accountabilities and provide a mechanism to report on the effectiveness of the program.

Administration also developed and implemented a process to create and update a Hazard Identification and Risk Assessment. This enables the City to identify its highest priority hazard risks and be better prepared to respond to actual disasters or emergencies.

Improved governance, security, and reporting of ETS revenue

In 2019, we completed an audit of Edmonton Transit Service (ETS) revenue management. In response to the audit recommendations, Administration strengthened the ETS governance framework related to revenue management,

improved fare system security, and improved its overall program reporting and fare system performance measurement. In addition, Administration improved the understanding on how proposed transit fares are developed and enhanced its non-fare revenue strategies.

Improved controls over accounts payable systems

In 2019, we completed an audit of accounts payable. In response to the audit recommendations, the Branch implemented monthly controls to detect duplicate payments across multiple payment platforms. The Branch also implemented controls to regularly update who should have access to their systems and are identifying incompatible roles to reduce the risk of inappropriate transactions. They are also reconciling transactions between the accounts payable system and the corporate accounting system to help ensure the accuracy and completeness of all transactions.

Enhanced Forestry Services operations

In 2020, we completed an audit of the Forestry Services operations. In response to the audit recommendations, Administration digitized the tree inspection process using mapping technology. The mapping technology has improved the tracking of staff and contractor activities, including approval of contractor invoices for tree maintenance.

Administration has taken steps to improve the tracking of tree inventory data to ensure accuracy and completeness. Improvements to tree inventory data will help operations in assigning work and reporting on the condition of the City's trees.

Administration has also completed a review of their equipment utilization, including improvements in tracking their usage of equipment. This will actively support their lifecycle management and optimize the use of equipment.

Stronger governance around the use of cloud computing

In 2020, we completed an audit of the cloud computing governance framework and the operation of certain cloud services in place at the City.

In response to the audit recommendations the Open City and Technology Branch updated their Software Asset Management Standard Operating Procedures. They improved communication protocols to ensure that branch managers were reminded of their cyber security responsibilities on a regular basis. They also implemented a new process to have business areas that operate their own cloud services perform self assessments to determine compliance with cyber security guidance.

Improved ERS guidance and operational processes

In 2020, we completed an audit on the City's Evaluated Receipt Settlement processes. In response to the audit recommendations, the City created corporate-wide guidance on the use of this form of payment, including approvals, and created controls to prevent and detect duplicate payments.

They also now perform operational processes to periodically review the segregation of duties and monitor when conflicts exist.

Alignment of guiding documents, improved measurement and monitoring, and strengthened public communication for the Snow and Ice Control Program

In 2021, we completed an audit of the City's Snow and Ice Control Program. Council approved a revised Snow and Ice Control (SNIC) Policy in August 2021.

As a result of both the new policy and the audit report, the Parks and Road Services Branch updated all guiding documents relating to the SNIC program. In addition, the Branch improved the measuring and monitoring of the effectiveness, efficiency, and economy of the SNIC program to support decision-making. The Branch also improved its SNIC processes and operations by expanding its standard operating procedures. Finally, it acted on opportunities to strengthen public communication and the handling of citizens' concerns.

Improved inspections for open space assets

In 2021, we completed the Open Spaces Asset Transfer Audit. In response to the audit recommendations, Administration developed an electronic inspection form. The new form will help document inspections to ensure that information is complete.

Additionally, this will help inspectors to compile deficiencies and ensure they are appropriately addressed.

Administration also formalized the process to inform the various business areas of scheduled inspections, and they now share project listings. This will increase awareness and opportunity for the business areas involved to attend inspections.

Improved clarity, management, and measurement of real estate processes

In 2021, we completed an audit of the Real Estate Branch. In response to the audit recommendations, the Branch updated guidance and documentation around Property Manager roles and responsibilities, lease creation process requirements, and management of the Land Inventory Database. The Branch also prepared a comprehensive performance measurement framework for implementation in 2022.

Improved contract management

In 2021, we completed an audit on the City's management of its electrical services contracts. In response to the audit recommendations, the City created a key contacts matrix to clearly define, document, and communicate the roles and responsibilities of those managing the contracts. This matrix also includes who enforces the terms and conditions and who is responsible for monitoring contractor performance.

Other recommendations

Administration also closed additional recommendations related to improving efficiency, effectiveness, governance, and risk management.

MEASURING OUR PERFORMANCE

EFFICIENCY AND EFFECTIVENESS

We strive to deliver high-quality, innovative, and cost-effective audit services. To accomplish this, we measure key quality and efficiency indicators. This helps us to continuously improve our performance and outcomes.

Measures include customer relationship indicators, effectiveness and productivity metrics, and alignment to audit best practices. Each of these measures is an indicator of our success towards achieving our strategic vision and mission.

CLIENT RELATIONSHIPS

After each major project, we issue a client satisfaction survey to obtain feedback on our performance and to identify areas where we can improve our operations. Audit clients score our performance on a 5-point scale. Our target is 4 out of 5.

Feedback from clients has consistently reflected our strong performance.



EFFICIENCY

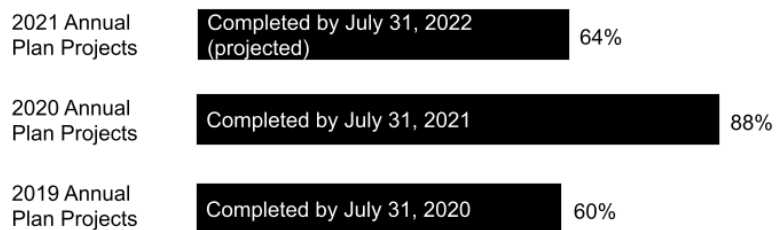
In 2021, 72 per cent of our available time was spent working on projects. The industry average is 70 per cent.



PRODUCTIVITY

To ensure consistent productivity, we schedule projects to begin at various times throughout the year. We track the progress of the Annual Work Plan by monitoring project start dates and completion dates. Our goal is to have 90 per cent of the projects in the Annual Work Plan completed by July 31 of the following year.

Completion of the projects in the Annual Work Plan is highly dependent upon the amount of emergent work we take on during the year. This includes investigations, unplanned high-priority issues, and requests from Council. These can result in delays or cancellation of planned work and a decrease in the number of planned projects we complete.



COST EFFECTIVENESS AND ACCOUNTABILITY

The OCA is committed to operating in a cost-effective and accountable manner. We measure our cost effectiveness by monitoring our actual versus budgeted expenditures, and our office operating expenses as a percentage of the City's operating expenses .

In 2021, our actual expenditures were 2.5 per cent below budget. At \$2.7 million, our 2021 annual office budget is below the industry average of \$3.3 million for audit shops of comparable size. Our office budget makes up 0.09 per cent of the total organization budget which is lower than the industry average of 0.14 per cent.

QUALITY ASSESSMENT

We perform periodic self-assessments throughout the year to ensure our conformance with the IIA's Standards and the Code of Ethics. Our periodic self-assessments include the Deputy City Auditors performing project quality reviews and, on an annual basis, an evaluation across all projects and processes.

The IIA Standards and the City Auditor Bylaw both require the OCA to undergo an independent external quality assessment review at least once every five years. The OCA has had three Independent External Quality Assessments in the past 10 years (2011, 2015, and 2020). In all three assessments, we achieved the highest rating an audit office can earn for compliance with the Standards.

Per the IIA Standards, the OCA must confirm its organizational independence. In 2021, the OCA was free from conditions that threaten its ability to carry out internal audit responsibilities in an unbiased manner.

Human Resources

HUMAN RESOURCES

Delivering high quality reports efficiently and effectively requires a competent, dedicated, and enthusiastic workforce. We understand the importance of effectively managing our staff, developing, and providing our staff with opportunities to grow both personally and professionally. Our focus is to provide all our staff with a supportive environment that encourages them to achieve their personal goals, while simultaneously achieving the desired outcomes of the OCA.

LEADERSHIP AND INVOLVEMENT

We provide national, and where possible, global leadership in the government auditing profession. To stay current in the industry, our staff undertakes a number of activities that promote the profession and our audit practices within and outside the City. Many of our audit staff members actively support the auditing profession by chairing or serving on boards of directors or committees of professional audit-related and other organizations. Staff have served the profession by acting as volunteer instructors for value for money auditing courses hosted by the Institute of Internal Auditors throughout North America. We also encourage staff to publish articles within auditing publications.

WORKPLACE CULTURE

The culture of our office supports the achievement of our goals. When surveyed in October 2021, our average rating of how happy our staff were working at the City of Edmonton was 58 out of 100. The average for all City staff was 65 out of 100.

The goals of the OCA were achieved in 2021 because of the staff's hard work, perseverance, and commitment to delivering high quality, innovative, and cost-effective audit services. With every audit we demonstrate our ability to willingly adapt and rise to new challenges and complexities.

PROFESSIONAL DEVELOPMENT

On average, staff completed 10 days of City-funded training and development to enhance their knowledge, skills, and other competencies including ethics. Staff with professional certifications require a minimum of 5 days of professional development per year.

The average cost paid externally for training and development was \$188 per staff member in 2021.

CERTIFICATIONS, DESIGNATIONS, AND DEGREES

100 per cent of audit staff have professional audit certifications, advanced designations, and/or degrees. These include: Certified Internal Auditor, Certified Information Systems Auditor, Certified Fraud Examiner, Certification in Risk Management Assurance, Chartered Professional Accountant, and Professional Engineer.

OUR TEAM

Hoang Quach	Lance Cooper	Sophia Kasozi	Edwin Ryl
John Bowers	Queena Dong	Michael Lam	Jason Solowan
Chrisy Burton	Paul Ebenezer	Stephan Maslo	Becky Williams
Lisa Callas	Leslie Glasbeek	Janine Mryglod	Thomas Wong